Washington Economy Watch

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Schar School of Policy and Government
George Mason University

The Washington Economy Watch is a monthly report issued by The Stephen S. Fuller Institute that is intended to inform its readers regarding the current and near-term performance of the Washington region's economy. The Leading and Coincident Indices were first reported in February 1991 and have been calculated each month since that first release and reflect an underlying data base that dates from 1978 covering five complete business cycles in addition to the current cycle that began in mid-2009.

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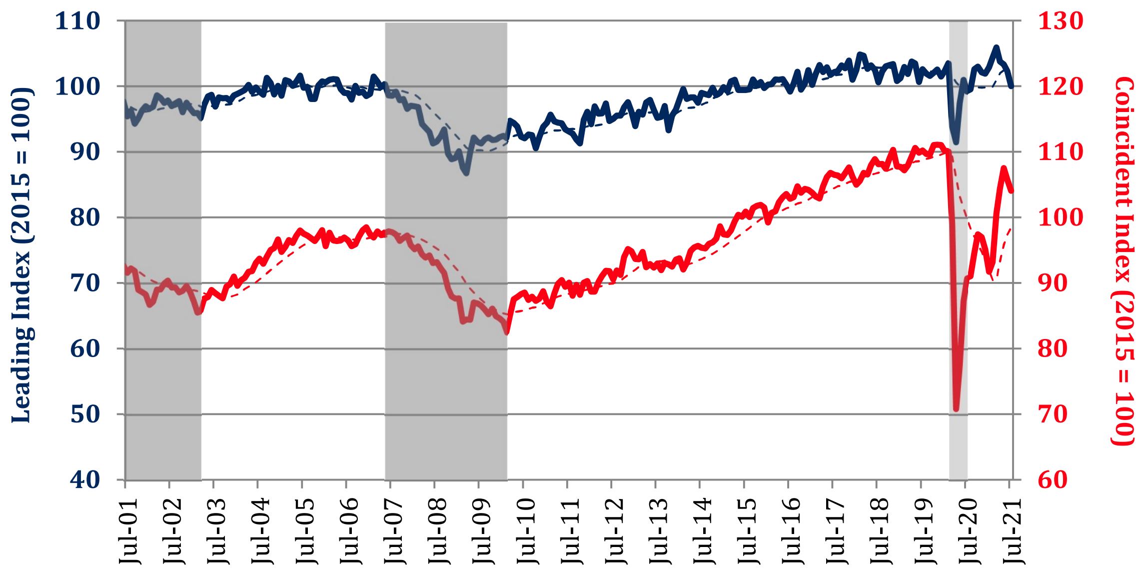
The Washington Region's Economic Recovery Continued to Slow in July 2021

The Washington region's economic recovery continued to weaken in July 2021, after slowing in June 2021. The Coincident Index decreased 1.6 percent between June 2021 and July 2021 for its second consecutive month-to-month decline. The Coincident Index increased 14.6 percent compared to July 2020 but remained 5.6 percent smaller than its July 2019 reading. The moderation in current economic conditions was the result of a decline in domestic air passenger volume and weakness in non-durable goods retail sales and employment. Similarly, the Leading Index decreased 2.2 percent between June 2021 and July 2021 for its fourth consecutive month-to-month decline. The Leading Index increased 0.8 percent from July 2020 but decreased 2.5 percent from July 2019. All four of the components in the Leading Index moderated compared to their spring 2021 levels. Preliminary data for August and September suggest that the slowdown in current growth continued.

Figure 1. Washington Region Economic Indices



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 1.6 percent between June 2021 and July 2021. This is the Index's second consecutive month-to-month decline and the first period of declines since the November 2020 through January 2021 period. The decrease in July was driven by a decrease in two of the four components: domestic airport passenger volume (-13.1%) and non-durable goods sales (-0.6%). Wage and salary employment was unchanged, increasing 0.02 percent and consumer confidence was the only component to improve, rising 2.5 percent from June 2021.

In July 2021, the Coincident Index increased 14.63 percent from July 2020 but was 5.5 percent smaller than its pre-pandemic reading in February 2020. The Index was 46.8 percent recovered in July; in May 2021, the Index was 51.7 percent recovered and current economic conditions worsened for two consecutive months. Compared to July 2020, all four components improved. Still, three of the four components were smaller than their July 2019 levels:

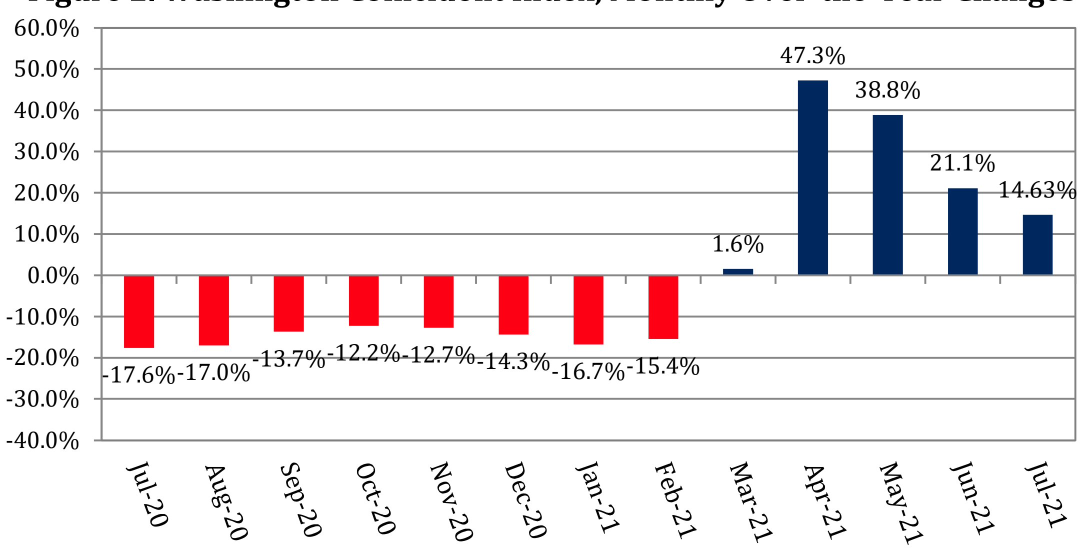
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 79.5% from July 2020, but remained 63.8% smaller than its July 2019 level;

- *Consumer confidence (in the present)* increased 66.1% from July 2020 but was 3.6% smaller than its July 2019 level;

- *Non-durable goods retail sales* increased 7.5% from July 2020 and continued to be the only component to exceed its 2019 levels, rising 10.2% from July 2019; and

- *Wage and salary employment* in the Washington region increased 4.4% from July 2020 but decreased 4.5% compared to July 2019.

Figure 2. Washington Coincident Index, Monthly Over-the-Year Changes



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 2.2 percent between June 2021 and July 2021, marking its fourth consecutive month-to-month decline. The Index had fully recovered in late 2020 but these declines have weakened the Index, which is now 3.4 percent smaller than its pre-pandemic reading in February 2020. For the second month in the past four months, all four components worsened on a month-to-month basis: total building permits (-25.4%), initial unemployment insurance claims (+11.7%), consumer expectations (-7.8%), and durable goods sales (-3.5%).

Between July 2020 and July 2021, the Leading Index increased 0.78 percent, marking its eighth consecutive monthly over-the-year gain. Compared to July 2019, the Index decreased 2.5 percent and the Index has generally weakened in the past three months. This moderation suggests that the economic expansion will slow in early 2022 after relatively strong growth at the end of 2021. In July 2021, two of the Index's four components decreased compared to July 2020 and three of its four components decreased compared to July 2019:

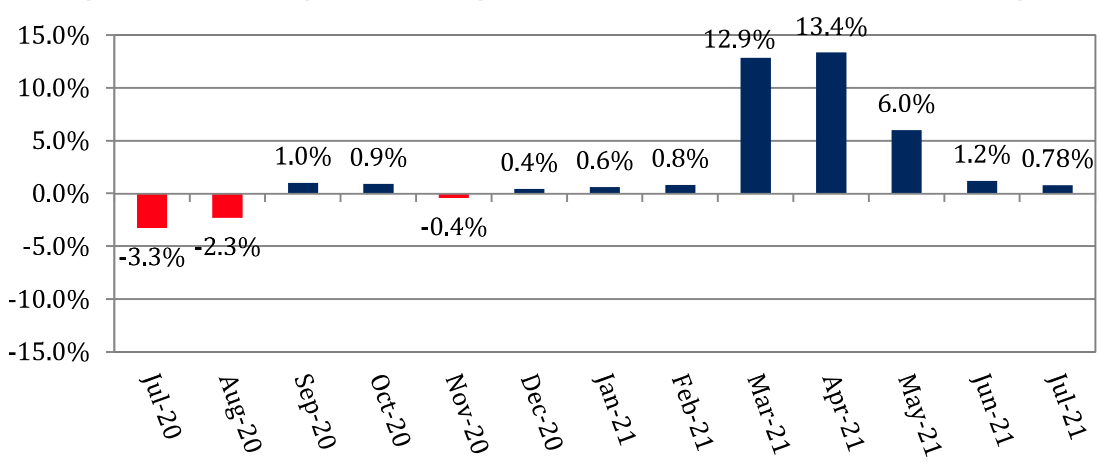
- *Total residential building permits* decreased 9.6% from July 2020 and 46.0% from July 2019; and

- *Durable goods retail sales* decreased 0.6% from July, for its first monthly over-the-year decline in 14 months, but increased 7.1% from July 2019; while

- *Consumer expectations (consumer confidence six months hence)* increased 11.0% from July 2020 but decreased 12.9% from July 2019; and

- *Initial claims for unemployment insurance* decreased 13.7 (improved) compared to July 2020 but increased 353.0% (worsened) from July 2019.

Figure 3. Washington Leading Index, Monthly Over-the-Year Changes



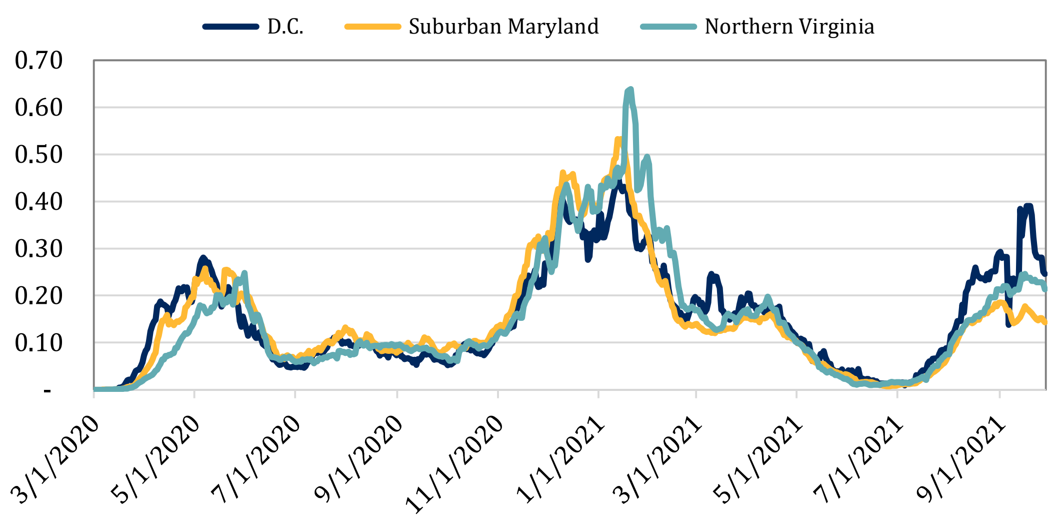
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The Washington region's economic recovery continued to slow in July 2021. The Coincident Index reached its smallest reading since March 2021 and two of its four components decreased in recent months: domestic air passenger volume and non-durable goods retail sales. This slowdown occurred in spite of the improving health conditions, suggesting that local consumers are delaying any changes to their behavior until the health conditions appear to stabilize instead of reacting to month-long changes in new daily case rates or vaccination trends. Employment data in August reflected the third local wave of the pandemic, resulting in the smallest month-to-month gain since December 2020. Based on the continued elevation in new daily COVID-19 case rates and consumer spending and behavior data, it appears that that region's economic recovery continued to slow in September.

After two months of small and stable new daily COVID-19 case rates, the Washington region began its third local wave of COVID-19 in August 2021. As of the end of September, new daily case rates appear to have peaked in mid-September and have trended down for the past two weeks; however, case rates are still elevated and the recent decline was small. At its peak in mid-September, the region's case rates exceeded those during the first wave in May 2020 by 7.3 percent but were less than one-half (42.6%) of the rates that occurred during the peak of second wave in January 2021. At the end of September, case rates declined 18.7 percent from their peak in mid-September but were 18 times larger than in June 2021, when rates reached their smallest level during the pandemic. Altogether, the health metrics indicate that the economic recovery would have been modestly stronger for July 2021 than in August 2021, which was most affected by the third wave.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 9/28/21



Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (2020 Decennial Census); The Stephen S. Fuller Institute at the Schar School, GMU

Even with the improving health conditions in June and July 2021, economic growth slowed and the Coincident Index decreased for two consecutive months on a month-to-month basis. This decline was primarily the result of decreases in domestic passenger volume at Reagan National and Dulles Airports, but the two-month gains in non-durable goods retail sales and wage and salary employment were also smaller than those that occurred earlier in the recovery. Air passenger travel in July 2021 increased 79.5 percent from July 2020 but was 63.8 percent smaller than in July 2019. Altogether, this component was about 33 percent recovered and was the least recovered component in the Coincident Index. Nationally, air travel was about 79 percent recovered in July 2021, marking its best performance since the start of the pandemic. In August and September, national air travel weakened and was less recovered than in July, at 76 percent. This national decline was likely the result of rising case rates, concerns over vaccine efficacy, and the end of the summer tourism season. The national moderation in air travel in August and September suggests that local air travel and tourism also plateaued and did not bolster economic activity in late summer and early fall.

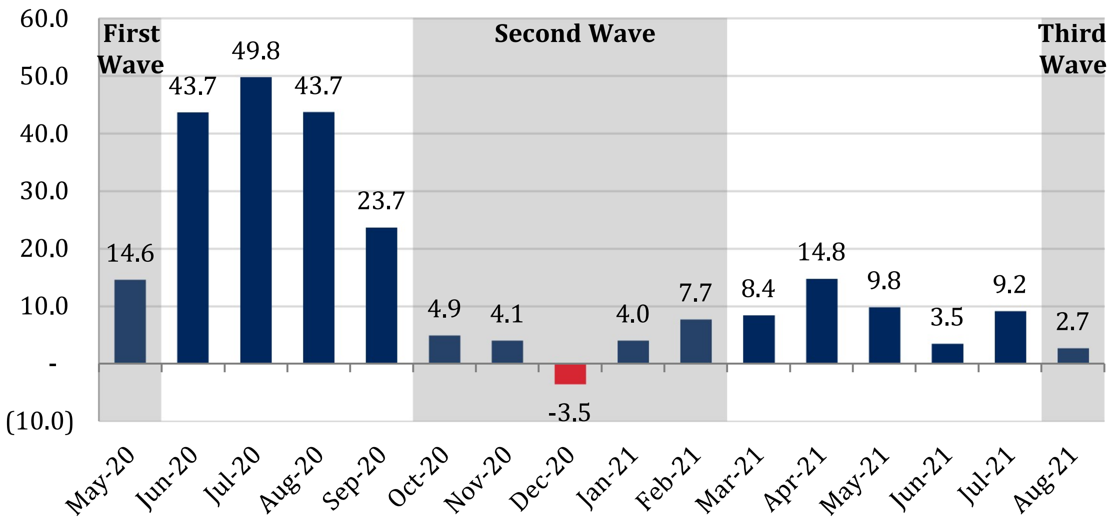
Non-durable goods retail sales were the first component to fully recover in June 2020 and have increased in 12 of the past 14 months on a monthly over-the-year basis. In July 2021, non-durable goods sales increased 7.5 percent compared to July 2020 and 7.1 percent from July 2019. While sales levels continued to be strong compared to historic trends, sales have been relatively stable since March 2021 and month-to-month changes have been weak: non-durable goods sales had two month-to-month declines in the past three months, including a decrease between June 2021 and July 2021. As a result of this moderation in monthly growth, non-durable goods sales have not significantly increased economic activity in recent months and are unlikely to do so in upcoming months.

Wage and salary employment improved in July and August 2021, although the rate of improvement continue to be weak compared to earlier in the recovery. In July 2021, the region had recovered a total of 238,300 of the 425,300 jobs that were lost between February 2020 and April 2020. Compared to June 2021, the region added 9,200 jobs after adjusting for seasonal patterns. The month-to-month gain was weak relative to the gains between the first and second waves of COVID-19 (+40,200 per month) and was part of a broader slowing in job growth. In August, this moderation in gains continued, exacerbated by the third local wave of COVID-19. In August, the region added 2,700 jobs for its smallest month-to-month gain since December 2020.

The moderation of job growth in August 2021 was the result of a weakening of the Retail Trade and Construction sectors and a slowing rate of recovery in the Leisure & Hospitality sector. The number of jobs in the Retail Trade sector decreased by 16,400 (-6.1%) between August 2019 and August 2021, marking its largest decline from the same month in 2019 since January 2021. This sector had the third largest percentage decline in August; in July it had the fifth largest decline. The number of jobs in the Construction sector decreased by 5,800 jobs (-3.4%) in August 2021 compared to August 2019 and this sector was its least recovered since August 2020.

This sector had the seventh largest percentage decline of the 13 major sectors; in July 2021, this sector had the ninth largest decline. The Leisure & Hospitality sector continued to have the largest losses of all sectors and decreased 20.2 percent (-70,400 jobs) between August 2019 and August 2021. While this sector has recovered about 62 percent of the jobs that were initially lost during the pandemic, the rate of improvement slowed. This slowdown was primarily the result of the Accommodation sub-sector, which did not add jobs in August 2021. The Accommodations sub-sector also continued to have the largest percent declines, decreasing 40.2 percent between August 2019 and August 2021. The Arts, Entertainment & Recreation sub-sector decreased 22.7 percent during this period, while the Food Services & Drinking Places sub-sector decreased 15.9 percent.

Figure 5. Month-to-Month Job Change During Economic Recovery Washington Region (in 000s)



Sources: The Stephen S. Fuller Institute at the Schar School, GMU (Adjusted for seasonal factors and sub-regional inconsistencies)

Three sectors had more jobs in August 2021 compared to August 2019. The Federal Government increased by 9,800 jobs (+2.7%) and has had similar gains during each month of 2021. Because of the temporary Decennial Census hiring in August 2020, the number of Federal Government jobs decreased by 2,400 jobs during this 12-month period and similar declines are likely to occur in upcoming months. The Professional & Business Service sector increased by 2,300 jobs (+0.3%) compared to August 2019 for its strongest gain since the beginning of the pandemic. The gains in this sector continue to be driven by the Professional, Scientific & Technical Services & Management sub-sector, which increased by 12,300 jobs (+2.1%) and the Administrative, Support & Waste Management Services sub-sector decreased by 10,000 jobs (-4.8%) during this period. The third sector with gains was Wholesale Trade, which increased by 500 jobs (+0.8%). The Wholesale Trade sector recovered in April 2021 and its recovery was likely the result of online sales.

Consumer confidence in the South Atlantic has been the most volatile component, as consumers have quickly adjusted to the changing nature of and understanding about the pandemic. In July 2021, confidence improved and reached its largest reading since the beginning of the pandemic. This improvement occurred when new daily case rates were small and prior to concerns about variants and the need for booster shots to bolster any waning vaccine immunity. In August, confidence decreased significantly, mirroring the worsening health crisis. Consumer confidence in August was its weakest in four months and appears to have coincided with a continued slowdown in consumer activity as shown through OpenTable reservations, time spent outside of the home, and consumer spending on certain types of services like entertainment and transportation.

The Washington region did not benefit from increased leisure or tourism activities during the summer of 2021. The economic recovery continued to be driven by local consumers, who were slow to return to pre-pandemic activities even while new daily case rates reached record lows. This slowdown in the recovery continued in August and preliminary data suggest that it extended into September.

Washington Region's Near-Term Outlook

During normal business cycles, the Washington region's Leading Index projects economic performance six to eight months in advance. Because the current recession and recovery are the result of a health crisis, the Leading Index reflects how businesses and consumers anticipate that the health crisis will affect the economy in upcoming months and the Index has varied in the short-term as the health crisis has evolved. Still, the Index peaked in March 2021, suggesting that growth will accelerate later this year. Since March, the Index has moderated and indicates that growth will slow in early 2022, assuming no substantial changes to current COVID-19 trajectory.

All four of the Index's components have weakened compared to their readings in the spring of 2021 and each of the four components decreased between June 2021 and July 2021. Durable goods retail sales had the most sustained decline of the four components, decreasing for four consecutive months on a month-to-month basis. This component also had its first monthly over-the-year decline in July 2021, decreasing by 0.6 percent after 13 months of increases. Even with this decline, durable goods sales were 7.1 percent larger than in July 2019 and the sales level remained strong compared to historic norms. The recent moderation was partially the result of the above-average sales that occurred during most of the pandemic. Durable goods are those that last for three or more years and once purchased do not need to be repurchased for several years. Sales may also be moderating due to supply bottlenecks or price increases. Durable goods sales will continue to moderate in upcoming months.

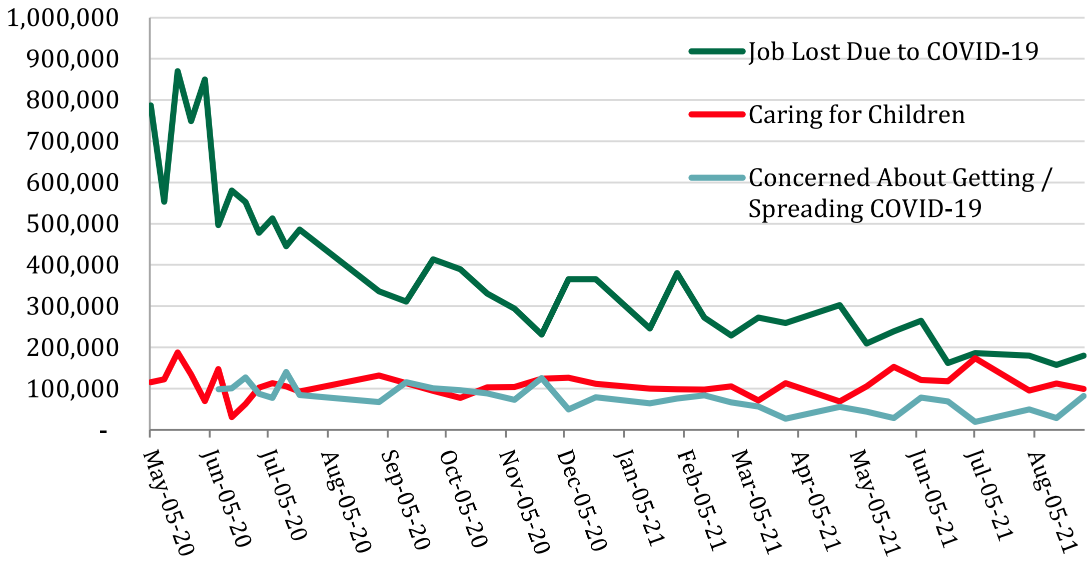
Residential building permits had the largest decline in July 2021, decreasing by 9.6 percent compared to July 2020. For the first month in a year, both multi-family and single-family permits decreased on a monthly over-the-year basis, declining 11.6 percent and 5.4 percent, respectively. Compared to July 2019, the decline in permits was more acute: multi-family (-13.7%) and single-family permits (-68.2%). In August 2021, permits increased 5.3 percent compared to August 2020 but remained 2.8 percent smaller than in August 2019. Overall, permitting activity continued to trend downwards during the summer months, possibly due to anticipate supply or labor shortages.

Initial claims for unemployment insurance increased on a month-to-month basis in both June 2021 and July 2021, rising a total of 45.4 percent. This increase may be because of labor force adjustments, as employers and workers continue to sort and re-match with each other as the recovery progresses, and not necessarily be indicative of a worsening employment market. Instead, the slow return of potential workers to the labor force may be a larger hinderance for near-term economic growth. While the pandemic increased the number of unemployed residents in the Washington region, an even larger number of residents left the labor force: the region added 77,770 unemployed residents between February 2020 and August 2021 but had 177,330 fewer residents that were associated with the labor force.

Census data suggests that there are three potential reasons that the labor market could improve in upcoming months, but that this improvement will depend on a substantial improvement in the health crisis. The most significant pandemic-specific reason that people in the Washington region did not have a job was that they were laid off or furloughed or that their employer closed either temporarily or permanently due to the pandemic. As of the August 18 – August 30, 2021 period, there were 179,740 residents that listed a job loss or furlough for this reason. These workers may be included as unemployed residents or may have left the labor market but will return as their jobs return, as they appear to have done throughout the recovery.

The second largest group that may return to the labor market in upcoming months are those that are not employed because they are caring for children not in school or in daycare. As of the end of August 2021, there were 99,120 residents that cited this as the main reason for not having a job and this number has not substantially changed during pandemic. Similarly, of all the households with children younger than 12 years old, 27.2 percent were affected by the lack of non-school childcare during in July or August 2021. This included 7.9 percent of households that reduced the hours that they worked, 6.0 percent of households that supervised their children while working, 5.0 percent of households that had a worker leave his or her job or the labor force, and 4.8 percent of households that took either paid or unpaid leave to care for their children. As schools and childcare organizations return to in-person services, residents may either return to the labor market or currently employed workers may have additional capacity to return to pre-pandemic hours.

Figure 6. Persons Without a Job by Select Reason
Washington Region (Select Weeks between 4/23/2020 and 8/30/2021)



Sources: U.S. Census Bureau (Household Pulse Survey); The Stephen S. Fuller Institute at the Schar School, GMU

Lastly, the region had 82,340 residents that did not have a job because they were concerned about getting or spreading COVID-19 during the August 18 – August 30, 2021 period. The number of residents with this concern has not changed significantly since this option was first provided for respondents in June 2020. These potential workers may return to the labor force as the third local wave of COVID-19 subsides and as vaccine efficacy or the need for and availability of booster shots is better understood.

Consumer expectations in the South Atlantic region trended down in July and August 2021. Nationally, a smaller share of consumers expected there to be more jobs, an increase in income, and an improvement in business conditions in the next six months in August compared to June 2021. This projection may be because of pandemic-specific concerns or those related to inflation, supply shortages or labor market shortages. Consumer expectations have been the most volatile component and will continue to fluctuate based on short-term issues.

Overall, the Leading Index had a broad-based and sustained slowdown in June and July 2021, and the preliminary data for August indicates that the situation was similar. This moderation is in contrast with its spring performance, which reached its largest reading on record with data beginning in 1990. The Index suggests that the region is positioned for its strongest recovery during the fourth quarter of 2021 and that the economic activities that are easiest to regain will have been recovered by the end of this year. Growth in the first quarter of 2022 may slow, as supply chain and labor market bottlenecks become more prevalent. This recovery pattern is dependent on the end of the third wave of the pandemic and may be delayed if the third wave is prolonged.

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Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-21 Prelim.	Jun-21 Final	Jul-20 Final	Jun-21 to Jul-21	Jul-20 to Jul-21
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	104.0	105.7	90.8	-1.62%	14.63%
Leading Index (2015 = 100)	100.0	102.3	99.2	-2.21%	0.78%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,213.3	3,212.7	3,077.8	0.02%	4.40%
Consumer Confidence (South Atlantic)[a]	168.4	164.3	101.4	2.50%	66.07%
Domestic Airport Passengers ('000)[b]	819.5	943.3	456.7	-13.12%	79.46%
Nondurable Goods Retail Sales ($000,000)[c]	3,738.9	3,760.1	3,477.7	-0.56%	7.51%
Washington Area Leading Index Components					
Total Residential Building Permitsa	1,550.0	2,078.0	1,714.0	-25.41%	-9.57%
Consumer Expectations (South Atlantic)[a]	100.6	109.1	90.6	-7.79%	11.04%
Initial Unemployment Claims[b]	9,245.0	8,275.3	10,708.4	11.72%	-13.67%
Durable Goods Retail Sales ($000,000)[c]	3,967.7	4,111.8	3,993.6	-3.50%	-0.65%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,420.2	3,381.9	3,415.7	1.13%	0.13%
Employed Labor Force ('000)	3,245.4	3,192.7	3,127.8	1.65%	3.76%
Unemployed Labor Force ('000)	174.8	189.2	287.9	-7.61%	-39.29%
Unemployment Rate	5.1%	5.6%	8.4%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,213.3	3,212.7	3,077.8	0.02%	4.40%
Construction ('000)	163.7	163.5	161.9	0.12%	1.11%
Manufacturing ('000)	56.1	55.8	53.9	0.54%	4.08%
Transportation & Public Utilities ('000)	72.8	72.8	71.5	0.00%	1.82%
Wholesale & Retail Trade ('000)	321.5	321.2	304.4	0.09%	5.62%
Services ('000)	1,912.9	1,890.8	1,813.6	1.17%	5.48%
Total Government ('000)	686.3	708.6	672.5	-3.15%	2.05%
Federal Government ('000)	375.0	372.8	372.2	0.59%	0.75%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars